

Commission on Streamlining Government

Senator Jack Donahue, *Chairman*
Roy O. Martin, *Vice Chair*
Angele Davis, Commissioner of
Administration
Barry Erwin
Brett F. Geymann, Representative
Leonel Hardman
John Kennedy, State Treasurer
Lansing Kolb
Mike Michot, Senator
Jim Morris, Representative



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Tim Prather, *Coordinator*
Trudy Fourmy, *Secretary*

MINUTES

Tuesday, October 13, 2009

9:00 a.m.

Senate Committee Room A-B

DATE APPROVED: October 27, 2009

I. CALL TO ORDER

A meeting of the Commission on Streamlining Government was held on Tuesday, October 13, 2009 in Senate Committee Room A-B of the State Capitol in Baton Rouge, Louisiana. Senator Donahue, Chairman, called the meeting to order approximately at 9:05 a.m.

II. ROLL CALL

The secretary called the roll and the following was noted:

MEMBERS PRESENT

Senator Jack Donahue, *Chairman*
Roy O. Martin, *Vice Chairman*
Representative Brett F. Geymann
Representative Jim Morris
State Treasurer John Kennedy
Angele Davis, Commissioner of Administration
Barry Erwin
Leonel Hardman
Lansing Kolb

MEMBERS ABSENT

Senator Mike Michot

STAFF PRESENT

Jerry Guillot, Chief of Staff
Tim Prather, Coordinator
Trudy Fourmy, Secretary

WITNESSES PRESENT

Commissioner Jim Donelon, Dept. of Insurance
Maurice McTigue, George Mason University
George Stack, LaFourche Arc, Thibodaux, LA
Ric Crowley, Denham Springs, LA

III. APPROVAL OF MINUTES

Roy Martin motioned that the minutes of the commission meeting held on September 1, 2009, be approved. There being no objection to this motion, it was so ordered.

IV. ADVISORY GROUP MEMBERSHIP

Chairman Donahue stated for the record that Representative Kevin Pearson has been appointed to the Civil Service and Employee Benefits advisory group, making it a five person group.

V. AGENCY PRESENTATION

Chairman Donahue called upon the Louisiana Department of Insurance to begin their presentation. Insurance Commissioner Jim Donelon was not present at the time. The chairman advised the commission his presentation would be heard later in this meeting.

VI. ADVISORY GROUP STATUS REPORTS

There were no advisory group status reports.

VII. RECEIPT OF ADVISORY GROUP RECOMMENDATIONS

Chairman Donahue stated the Streamlining Commission will read into the record the items as outlined which the advisory groups have already approved. He stated the commission members will be allowed to ask questions, but there will be no debate at this time as they are simply being received by the commission. He stated the commission will review those items within two weeks and the new agenda will reflect that. He added those individual recommendations will be pulled off the calendar for discussion while receiving other advisory group's recommendations.

Chairman Donahue called upon Jerry Guillot to explain how public comments will be handled. Jerry Guillot stated the intent of the commission is to read and make public the recommendations, then allow a period of time for public written comment either by regular mail or by e-mail to the commission. He stated those responses will be forwarded to the advisory group from which the recommendation came. He stated the advisory group will make a determination of whether further hearing is warranted on that particular recommendation based upon the comments received with any additional hearings being done with the advisory group. He stated the advisory group then will have an opportunity at a later date to return with an agreement, revision or withdrawal to the recommendation.

Advisory Group on Outsourcing, Privatization and Risk Management

All Departments

RECOMMENDATION: Reduce total number of state-owned automobiles to 2004 level.

Mr. Martin stated Commissioner Davis supplied information regarding the state's 12,760 automobiles which is valued at approximately \$200M. There were approximately 1,400 automobiles purchased in 2007. Commissioner Davis has reduced that by half. The advisory group's recommendation is to reduce the total number of state-owned vehicles to 2004 pre-Katrina levels, approximately 12,000 cars from information received from the Legislative Auditor and from the Office of Risk Management. The savings would be approximately \$25M just in vehicles which does not include approximately \$4,000 per vehicle for maintenance or insurance.

Treasurer Kennedy was concerned if this includes all of state government such as higher education. Mr. Martin stated it includes all departments including higher education. He stated the next item concerning automobiles is to reduce the total number of automobiles after achievement of the pre-Katrina levels by 20% and convert many of the agency fleets to rental. The RFP is being developed and will be going out by Commissioner Davis's office. He stated another 20% of those vehicles would be privatized or eliminated at a savings, including maintenance, of approximately \$35.5M. However there are some rule changes that will need to be made and an RFP to be taken out.

RECOMMENDATION: Hold department heads accountable for poor safety performance by department employees.

Mr. Martin stated the 2007 Office of Risk Management report indicates the state paid over \$55M in workers' compensation costs due to accidents. The 2008 report has not been released yet. He stated many departments had 5-7% of the workforce injured in one particular year. He stated there are training programs in the state and the department heads may need to be held more accountable for poor safety performance. The recommendation is to hire outside firms to assist with safety training for departments with poor safety records. Workers' compensation costs could be cut in half, a savings of \$25M. He stated he evidences that by the Department of Veteran's Affairs which had a fairly poor safety record, averaging 1 in 7 workers hurt every year. Three years ago, safety accountability and additional safety training was implemented and the number of accidents was cut in half.

RECOMMENDATION: Consolidate the collection of accounts receivable and outsourced the entire operation.

Mr. Martin stated his advisory group interviewed ten department agency heads and the common theme throughout was the collection of accounts receivable, fees and back fines, many being 90-180 days old and it is not part of the agencies' function to collect accounts receivable. The advisory group recommends the consolidation of the accounts receivable and to write an RFP to outsourced the collection of overdue accounts receivable which will reduce the time it takes to collect money owed to the state it is not presently getting.

Treasurer Kennedy was concerned if all of Mr. Martin's recommendations affect elementary, secondary and higher education. Mr. Martin stated yes.

Department of Revenue

RECOMMENDATION: Increase the number of auditors to increase compliance.

Mr. Martin stated Secretary Bridges discussed with the advisory group the relationship between the number of auditors she has and the collection of monies due to the state from compliance issues. He stated one individual fully trained auditor collects \$1M. The advisory group recommends Secretary Bridges either hire more auditors or readjust the department's TO's to place more auditors out in the field.

RECOMMENDATION: Require nonresident contractors to include tax ID number on each permit and proof that contractor has completely registered to do business in Louisiana.

Mr. Martin stated the advisory group recommends a requirement for contractors who apply to permit jobs in Louisiana place their tax ID number on the permit and be required before it is issued for the contractor to be registered with the state of Louisiana. This would streamline the compliance of the out-of-state and foreign contractors.

Commissioner Davis was concerned if the advisory group discussed the benefits of hiring additional auditors versus contracting for those services. Mr. Martin stated there was a brief discussion. He added the people trained by the Department of Revenue more equitably apply the law as a contractor is paid on a percentage of receipts. They are incited to make a tax due when perhaps it is not, requiring an individual to go into legal proceedings to fight it. He added the advisory group did not take that issue up.

Department of Social Services

RECOMMENDATION: Move DSS printing and mail operations to private company.

Mr. Martin stated this is a recommendation by Secretary Nichols. DSS has a tremendous print and mail operation so the advisory group recommends an RFP be put out to see if it is more cost effective to outsourced to a private printing company. He added the cost savings is estimated to be between \$500,000-\$750,000.

Department of Health and Hospitals

RECOMMENDATION: Transition Medicaid to integrated delivery system with care coordination.

Mr. Martin stated the advisory group recommends Medicaid transition to an integrated delivery system with care coordination. The advisory group believes Medicaid currently operates under a fee-for-service payment methodology that pays for claims to providers with no real organized method of helping patients through the medical process. DHH's Medicaid Managed Care is transforming its roll from paying for services to one of monitoring the various systems of care. Secretary Alan Levine highly recommends this and believes it will save approximately 19% of Medicaid costs which translates to about \$45M per year, state and federal.

RECOMMENDATION: Implement a competitive bid process to redirect services from public health units to local providers (such as FQHCs and RHCs).

Mr. Martin stated the advisory group recommends an RFP be written making a competitive bid process to redirect services from public health units to local providers such as Federally Qualified Health Care Units, Rural Health Care Units or other organizations capable of direct service delivery. This is the monitoring aspect of DHH rather than the providing of service. He stated the cost savings is estimated to be \$25.5M.

RECOMMENDATION: Consolidate DHH operated inpatient mental health services in New Orleans area. Expand community-based outpatient mental health services in New Orleans area.

Mr. Martin stated the advisory group recommends consolidating DHH operated inpatient mental health services in New Orleans and expanding community-based outpatient mental health services in the New Orleans area. He stated since this is a consolidation, rule changes are needed. Secretary Levine believes this will save approximately \$9M.

RECOMMENDATION: Privatize DHH community homes, independent living clients and extended family living clients.

Mr. Martin stated the advisory group recommends an RFP be written to choose a private provider to privatize remaining community homes in Louisiana consisting of 21 support independent living clients and six extended family living clients with a cost savings of \$7.1M. Mr. Erwin was concerned if privatized meant for-profit, non-profit or any other entity. Mr. Martin stated yes.

Division of Administration and Legislature

RECOMMENDATION: Eliminate projects in Capital Outlay Act that exceed the cash line of credit capacity.

Mr. Martin stated the advisory group discussed the total annual amount of capital outlay projects cannot exceed the cash line of credit capacity in any given year. The advisory group recommends the legislature not commit to the list more than it can spend. Some projects drop off therefore a higher percentage may be needed such as 105%-110%. He stated there are \$1.45B in capital outlay projects at this time.

Commissioner Davis asked if the advisory group discussed a phase-in approach. She was also concerned regarding what to do with the existing projects in the back log. Mr. Martin stated if there is currently a \$1B shortfall, the list needs to be reviewed to see what priorities can be given to those projects. He added only the ones that have the highest priority get done.

Commissioner Davis was concerned about a number of multiple year projects that are currently under way being eliminated. Mr. Martin stated that was correct and that work needs to be done on the wording of this recommendation for a phase-in or something that is more applicable to the given situation.

Commissioner Davis also voiced concern about stopping certain projects that are under way which the state has already invested money in. She added the commission should understand the impact of this recommendation to those projects. Mr. Martin stated this was not a look-back recommendation, but is a going-forward recommendation to begin in 2010.

Treasurer Kennedy stated his understanding of this recommendation was rather than have the legislature pass a hundred projects when there was only money for fifty, prioritize those hundred projects and the legislature would say it only has project money for fifty projects and here are those fifty. Mr. Martin stated that was much better said.

Chairman Donahue stated this is only the acceptance of the recommendation of the advisory group which will come back up for debate and are subject to receipt of written comments as well as amendments or vetoes by this commission. Commissioner Davis voiced her concern regarding the savings of the General Fund. Mr. Martin stated he could not calculate that figure, that if there was a bonding capacity of \$500M and there is \$1.45B, it appears there could be a good possibility of money saved.

Department of Public Safety and Corrections

RECOMMENDATION: Outsourced all aspects of food services.

Mr. Martin stated Secretary Mike Edmonson of the Department of Public Safety and Corrections recommended outsourcing the food service area in prisons. They would continue to grow their own crops using prison labor, but will outsource the running of that food service area. He stated he was unable to figure a cost savings as the RFPs have not been written yet.

Department of Natural Resources

RECOMMENDATION: Electronic reports by energy producers.

Mr. Martin stated Secretary Scott Angelle recommends a requirement the energy producer's report on production be made electronically. Not having to rekey all of this information will save \$250,000 a year.

RECOMMENDATION: Outsourced data entry for archiving lease records.

Mr. Martin stated the recommendation is to outsource data entry for archiving lease records to a private firm. Secretary Angelle finished the RFP and believes there would be a cost savings of \$300,000 per year.

Representative Morris was concerned regarding the current operators as to whether the information that has been supplied for free will now have a cost. Mr. Martin stated this was for the archiving of old lease records from the past which have not been put in electronically.

Office of Risk Management

RECOMMENDATION: Manage workers' compensation claims online.

Mr. Martin stated the advisory group recommends an RFP be written for workers' compensation claim management to evaluate if a private firm can reduce the cost per claim and eliminate any fraud in the system. No RFP has been written so the cost savings is unknown.

Chairman Donahue was concerned if it was the advisory group's intention to get the RFPs written or to make a recommendation that an RFP be written. Mr. Martin stated it was to make the recommendation that an RFP be written and then evaluated as to whether it is a savings to the state to outsourced or to continue to insource that function.

Louisiana Workforce Commission

RECOMMENDATION: Eliminate Second Injury Fund.

Mr. Martin stated the advisory group recommends the Second Injury Fund be phased out as soon as possible. He added the fund was designed for employers to more readily hire workers who had been injured previously. As of 2004, claims to the Second Injury Fund pays only 12% of industrial claims and has insufficient funds to continue. The advisory group recommends it be eliminated.

NOTE: Recommendations to be continued after Agency Presentation.

V. AGENCY PRESENTATION (*Presented out of order*)

Chairman Donahue again called upon State of Louisiana Insurance Commissioner Jim Donelon to make his presentation to the commission.

Commissioner Donelon apologized to the commission members for his delay. He introduced Shirley Bowler, Deputy Commissioner of Management and Finance. He stated there were three areas the commission requested he address. He stated the department has received no dollars from the State General Fund and the department is totally funded by self-generated funds with licenses and fees. He stated this does not include the premium taxes the department collects on behalf of the state. The department is the third largest tax source in state government and currently employs 275 authorized, 22 vacant, 252 classified/unclassified and 13 students. The department's available Federal funds through the Senior Health Insurance Program this year is \$550,000 and they will be doing a BA-7 for approximately \$684,000 when that grant application is approved.

In regard to improvement within the department, Commissioner Donelon stated the legislature eliminated the Insurance Rating Commission. Pursuant to legislation, the commission Sunset on January 1, 2008. Since that time, he added, the Insurance Rating Commission's roll completely falls to him.

Commissioner Donelon stated the legislature in the aftermath of Katrina/Rita set aside approximately \$100M for the creation of the Insure Louisiana Incentive Program. He added of the \$100M, \$29M was accessed by five companies in the first round of offerings. He stated there were two additional rounds of offerings that were not taken. Two companies presently doing take-out work for Citizens in Florida did apply in the second round for \$5M each under the program, but their applications were

rejected because they did not meet the enhanced solvency requirements. There were five new companies that accessed the program and currently are writing. Some companies are ahead in meeting the requirements of the five-year write and take-out of Citizen's policies and some are behind and the department is monitoring quarterly their compliance with the program.

In regard to downsizing Citizens, he stated commercial and residential policy holders include over 1,000 each in Shreveport and Monroe who are unable to get their properties insured in the private sector. He added Citizens had 125,000 policies on the day Katrina hit Louisiana which ballooned to 170,000 two years ago and is 124,000 today. Because of the incentive program, five new companies, together with five other new companies that did not participate in the incentive program, have taken 145,000 of the 170,000 policies out of Citizens over the past 18 months.

In regard to farm filings, he stated when he was Chief Deputy in 2001, the filings were in the old insurance building basement in plastic mail bins. He stated over 15,000 policy forms had accumulated over more than a decade and had not been read or approved. The department reviewed each one of the 15,000 plus policies and mailed the companies the department's review on a one-strike-you-are-out basis. Over the past five years, the department has accomplished a thirty-day turnaround on policy forms that are filed in the state and company licensing.

Commissioner Donelon stated an HHI index was provided to the members in the interest of evaluating the market which is a formula the department's chief actuary Rich Piazza utilizes. It indicates positive trends in the homeowner's market. The two largest homeowner's writers are State Farm and Allstate. State Farm, at the time of Katrina, had 32% of the homeowner's market share and was the largest market share of any of the 50 states they were doing business in and they are down to 30 today. He stated Allstate had 22%, but are down to 18%. Travelers is also down. Three other major national carriers have doubled their market share since Katrina which are Farmer's Insurance, up 8%; Liberty Mutual, up 6%; and Republic Group, up 8% – all of which are writing in East Baton Rouge Parish. These three and ten other companies that are new to Louisiana have been writing since Katrina.

In regard to the health insurance market, Commissioner Donelon stated Louisiana's health insurance market was better than Mississippi, Alabama, Kentucky and North Dakota. Five years ago, Blue Cross in Louisiana had 33% of the market share and today they have 63%. United Health Care, Humana and Coventry all actively compete in Louisiana and that competition has kept the average cost of health insurance down for a family of four. Kaiser Family Foundation reports Louisiana ranks 25th in the 50 states consistently for as long as he has been at the department. He stated he was concerned regarding the growing dominance of Louisiana's Blue Cross in the market. NAIC did a survey of the 50 states regarding competitive markets and their criteria is if two carriers have more than 70% of the market share, it is not a competitive environment. He added United and Blue Cross now have more than 70% combined of the market share.

Chairman Donahue was concerned about the latest figures regarding the depopulation of Citizen's. Commissioner Donelon stated when Katrina hit, it was 125,000 then it grew to 170,000 and is down to 124,000 today. At the meeting last week, two service providers testified to the board members

that the trends are down. Mr. Martin stated as an employer in Alabama, Blue Cross has a 90% market share and their costs are much higher than in Louisiana.

VII. RECEIPT OF ADVISORY GROUP RECOMMENDATIONS (*Continued*)

Advisory Group on Duplicative and Non-Essential Services

Department of Social Services

RECOMMENDATION: Louisiana Department of Social Services 1:8 Supervisor/Direct-Report Ratio

Mr. Erwin stated the advisory group's recommendation was for DSS to reduce their span of control from a ratio of 1:5 to 1:8. In looking at that department and others in state government, the advisory group found the ratio between supervisors and employees in that department was rather high. However because of national accreditation reasons, some areas will maintain their tighter level of 1:5. He did not have the amount of the cost savings. He stated DSS appeared before their group last week and outlined a plan to consolidate some of their regional service areas which would result in downsizing and reductions of staff over a 2-3 year period of approximately 250. Those plans are underway and DSS will need assistance from Civil Service in terms of approving those.

Advisory Group on Efficiency and Benchmarking

Legislature

RECOMMENDATION: To abolish the University of Louisiana System, the Southern University System, the Louisiana State University System, and the boards and supervisors for each of these systems; that the colleges and universities in these systems be placed under the jurisdiction of the Louisiana Board of Regents; that the authority and responsibilities for the board of supervisors for each of these systems be transferred to the Louisiana Board of Regents; and to that all future appointments to the Board of Regents be subject to confirmation by the House of Representatives and the Senate of the State of Louisiana.

Chairman Donahue stated he is ruling this recommendation as not germane to the legislation creating this commission because it is clear in the legislation not to make structural changes to higher education. Treasurer Kennedy stated he disagreed and asked the commission to refer to Section 103(C) which reads "the commission shall examine the necessity and performance of activities, functions, programs and services to ensure that they are meeting current performance standards effectively and efficiently and they are meeting the needs of Louisiana citizens." He stated Louisiana law is clear and former Justice Dennis' opinion in *Succession of Lauga* states that if a statute is plain, unambiguous and clear in its meaning, there is no need to look further. The Governor wrote a letter dated September 16, 2009 stating "as you work to recommend ways to transition Louisiana's government into a more sustainable and efficient posture, the following are a few of the large cost drivers that have the most impact on our state's expenditures for your consideration." He stated the Governor mentioned Medicaid, Mental Foundation Program, statutory dedications and higher education. Treasurer Kennedy read to the commission members from the letter, "while the post-

secondary education review commission is working on reform initiatives to achieve efficiencies in the higher education system, it does seem appropriate for this commission to review the need for greater transparency in the usage of appropriated dollars within the system." This commission will be hearing testimony on proposals dealing with higher education employees, cars, computers, buildings, retirement, safety records, accounts receivable, printing, postage and food service but, in his opinion, it would be inconsistent to say this commission cannot make recommendations to higher education boards. The advisory group on which he serves is not suggesting anything as to tuition, courses that are offered or core academic curriculum of any institution.

Treasurer Kennedy moved to appeal the chairman's ruling and asked the commission to accept the recommendation to eliminate the three systems of higher education and their boards and to place the four-year universities under the jurisdiction of a geographically racial and gender diverse single board of higher education in the form of the Louisiana Board of Regents.

Chairman Donahue stated Treasurer Kennedy made some excellent points, but as the legislature reviewed this legislation, being aware the Tucker Commission would be dealing with higher education, it was his agreement with his fellow legislators that higher education would not be part of the process and his ruling is a matter of honor. He added this is a structural change that is very small in the scheme of things that needs to be done in relation to higher education. His second point was these were going to the legislature as a recommendation and, in his opinion, the legislature would question why this recommendation was taken by the Streamlining Commission when there was an higher education group studying this.

Mr. Guillot, for clarification, stated the chair had ruled the proposed recommendation as not germane and Treasurer Kennedy was appealing that ruling. He stated a motion and majority vote would be required to over rule the ruling of the chair and that a "yes" vote would be to over rule the chairman's ruling that the proposed recommendation is not germane. He added the commission members are voting not on the recommendation itself but merely whether the subject matter is germane.

Commissioner Davis was concerned if a legal opinion was requested on this issue by staff. Mr. Guillot stated the legislation as it began all related to the review of entities that were designated for the term "agency" and, in the beginning of the movement of the legislation, "agency" included all things in the executive branch. He added there was an amendment in the process and the final result was an agency is an entity within the executive branch, except that agencies shall not mean any public institution of post-secondary education and any post-secondary education governing or management board or any entity under the control of a public institution or post-secondary education or post-secondary education governing or management board. He stated in regard to Treasurer Kennedy's reference to Section 103(C), Section 103(C) follows 103(A) and (B) which references the agency's activities and the agency's functions, programs and services.

Treasurer Kennedy stated Section (C) does not reference agencies. Louisiana law is very clear that if a statute is plain in meaning on its face, there is no need to look any further. If the Legislature had meant to eliminate higher education, it would state "agency" within Section (C) and it did not. Chairman Donahue called upon Mr. Guillot to clarify if it said "except higher education". Mr.

Guillot stated the definition of "agency" in the beginning of the bill excludes any public institution of post-secondary education, any post-secondary governing or management board or any entity under the control of a public institution of post-secondary education or post-secondary education governing or management board.

A roll call vote followed and with a vote of 1 yea (Kennedy) and 8 nays the motion failed.

Legislature or Louisiana State University Health System

RECOMMENDATION: The governor and the legislature authorize and direct the LSU Health System to adopt the recommendations of Alvarez and Marsal for the operation of the interim Charity Hospital in New Orleans. The governor and legislature direct each other charity hospital in Louisiana to contract for a similar financial and operational assessment with a third-party private sector consulting firm, such as but not necessarily Alvarez and Marsal, that specializes and has a proven track record in turnaround management, corporate restructuring and performance improvement for institutions and their stakeholders.

In regard to performance, financial and operational assessment of the charity hospitals, Treasurer Kennedy stated the LSU Charity in New Orleans hired the firm Alvarez and Marsal to perform a performance audit. The firm made a recommendation which will save Louisiana taxpayers \$72M per year in the operations at Big Charity and the advisory group recommends LSU adopt these recommendations in so far as they are feasible and also the other charity hospitals be directed to RFP and chose a consulting firm to perform a similar performance audit.

Representative Morris was concerned this would be an unfunded mandate and a budget may have to be approved for the associated costs. Treasurer Kennedy stated this was similar to Mr. Martin's auditor recommendation. He added from one perspective it is an unfunded mandate and from another perspective it is money gained.

Commissioner Davis asked if this recommendation could be modified as the Legislative Auditor does similar types of performance and operational reviews as they could perform these functions and reduce the costs. Chairman Donahue stated this is just being recommended and that these recommendations will be brought back up in November when they can be accepted, modified or done away with by this commission.

Legislature and Department of Health and Hospitals

RECOMMENDATION: To limit the number of emergency room visits to two annually for treatment of non-emergency medical conditions for Medicaid enrollees under Louisiana's Medicaid Program who wish to have Medicaid pay for their treatment, and for patients who are not covered by a public or private insurance program, and therefore are uninsured, and who wish to receive their treatment without cost or substantially without cost because they are unable to pay for their treatment.

Treasurer Kennedy stated 1.2M people in Louisiana currently on Medicaid receive health care at no cost and another 800,000 uninsured patients also receive their health care at no cost. He stated this

proposal recommends two emergency room visits twice a year for a non-emergency, but on the third time the patient will be turned away and asked to go to a clinic. He added the Deputy Secretary at the Department of Health and Hospitals estimates a minimum cost savings of \$100M and perhaps higher.

Chairman Donahue thought a definition of "emergency" was needed and Mr. Kennedy agreed. Mr. Martin stated this dove-tails his advisory group's recommendation as to management of Medicaid patients.

Legislature, Cash Management Review Board, Governor

RECOMMENDATION: To place jurisdiction over all receivables by all departments in Louisiana state government with the Cash Management Review Board and to require that the State of Louisiana Receivables Report be compiled and published no later than 60 days after the end of every quarter.

Treasurer Kennedy stated, based upon the last accounts receivable report, Louisiana has \$1.7B in receivables which is money owed the state spread across state government, 65% of which is at least 180 days past due. This is not solely taxes and includes money from DHH and fines at DEQ, etc. The advisory group discovered the most recent accounts receivable report was issued June, 2008 and they recommend jurisdiction for all accounts receivables be placed with the Cash Management Review Board comprised of the State Treasurer, the Commissioner of Administration and the Legislative Auditor and require a receivables report to be compiled and published no later than 60 days after the end of each quarter. He added if 20% of the \$1.7B is collected, it would be more than the original purposed budget cut last session to higher education.

Chairman Donahue was concerned if some of the account receivables are aged, if the Department of Revenue chooses not to pursue the collectible and it is turned over to the Attorney General, who decides whether or not to pursue. Treasurer Kennedy stated some were aged and there was a procedure for writing some off. The Cash Management and Review Board will address the collection of the aged collectibles as collection is not a core mission for many of the agencies.

Commissioner Davis was concerned this may require a legislative change because agencies are providing the information in the format the law requires and the format may need to be revised. She added the report was not originally intended for budgetary purposes. The Joint Legislative Committee on the Budget has been working on revising the format to conform it to a true cash management report, including the amounts received during a quarter and the amounts already included in the agency's budget.

Chairman Donahue stated he believed if half of the \$1.7B is aged, then legislation keeps them on the books in case the money could be collected later which is why they are not written off and forgotten. He added two categories could be created, collectible versus wish list, and then research how to collect it better. Treasurer Kennedy stated if something has been on there too long, it needs to be questioned. Allowing the prescription to expire is a separate issue and those are questions the Cash Management Review Board can request the Attorney General to advise on.

Legislature

RECOMMENDATION: To provide that a Louisiana state prisoner, except those determined to have certain disabilities, who does not have a high school diploma, or who has not passed the General Education Development test (GED) certifying that he has American high school academic skills, shall not be eligible for probation or parole until he has passed the GED through a program offered by the Louisiana Department of Public Safety and Corrections. To provide funds to the Department of Public Safety and Corrections for this responsibility.

Treasurer Kennedy stated he has reviewed reports wherein Louisiana has the highest incarceration rate adjusted for population in the world. He added 50% of Louisiana's prisoners who are released on parole or after serving their sentences return to prison. The average prisoner in a state prison serves an 11-year sentence and has a 4th grade education. The Department of Corrections is spending less than 2% of its budget on prisoner education. The advisory committee recommends prisoners who enter the Louisiana prison system and do not have a high school degree to get a GED, unless they have a disability. If they do not get a GED, they will not be eligible for parole. He added he had spoken to Louisiana Public Broadcasting who believes they can help with providing the GED courses online which will be a substantial savings. He stated it has been known for years that crime, illiteracy and recidivism correlate. If recidivism can be reduced by 20%, it could save tens or perhaps hundreds of millions of dollars if all the social services that would have been paid out are then avoided.

Chairman Donahue stated he read an out-of-state report where more money was donated toward the education of prisoners with good results. He was concerned the way the recommendation reads, if a prisoner is eligible for parole and does not have a GED, they cannot be released. This suggests there is a cost involved, possibly substantial, should someone spend three more years in prison because they did not get a GED.

Treasurer Kennedy stated he has heard testimony that there are waiting lists currently among prisoners for the GED program. The whole purpose for not making the prisoner eligible for parole was to provide an incentive. If not being eligible for parole does not provide an incentive but increased the cost, this could be revisited.

Mr. Martin stated it was an interesting proposal, but just because a person has a high school degree does not mean they are functionally literate. He suggested a testing program be considered. Treasurer Kennedy stated the GED program requires a test.

Legislature

RECOMMENDATION: To prohibit all state appropriations to non-governmental entities.

Treasurer Kennedy stated the advisory group defined "earmarks" as funds provided by the Louisiana legislature for projects, programs or grants where the legislative direction circumvents otherwise applicable merit-based or competitive allocation processes or specifies the location or recipient or otherwise curtails the ability of the executive branch to manage its statutory and constitutional responsibilities pertaining to the funds process. "NGO" was defined by the advisory group as non-

governmental organization. "Non-governmental earmarks" are earmarks appropriated by the legislature to corporations and entities outside of state government. The advisory group recommends that Louisiana law be changed to prohibit all NGO earmarks but would only apply to earmarks for non-governmental organizations.

Chairman Donahue stated this does not preclude an NGO from getting money from an agency such as going through DHH or DSS. Treasurer Kennedy stated if an NGO had a tutoring program and can convince the Department of Education the tutoring program has merit, the department has the right to contract with the NGO.

Representative Geymann asked if the advisory group reviewed last year's list of NGOs that were actually funded and where the money went. He stated the Administration has tight criteria that must be met before an entity can qualify as an NGO. He added with this recommendation the state could get out of this business. Treasurer Kennedy stated his advisory group's perspective is none of the NGO earmarks have to compete; they are just placed in. He added the transparency is better as they are required to sign a Cooperative Endeavor Agreement with the State before they get their money and to submit a budget. Once the NGOs get the money, some have trouble coming up with a budget and there is no performance auditing or review of how the money is being spent.

Representative Morris stated he understood and agreed with the advisory group's intent. He added the Administration has done an excellent job of vetoing some of those. He totally disagreed with hiding NGOs in other agencies where he as a legislator cannot find it as it defeats transparency. The legislators have a very short time to look at the budget and he would entertain the possibility of helping to write different rules for this. He was concerned if Treasurer's office audits these type of things. Treasurer Kennedy stated his department is responsible for getting the initial paper work set up. He stated he is not suggesting the NGOs be hidden.

Chairman Donahue stated this recommendation will be subject for debate when it comes back up before the Streamlining Commission and asked Treasurer Kennedy to continue.

Legislature

RECOMMENDATION: To create a self-perpetuating revolving loan fund which would be available to local governments for purpose of financing local government projects through low interest rate loans rather than funding local government projects through the capital outlay process.

Treasurer Kennedy stated one third of the capital outlay budget is devoted to projects for local government. He added Commissioner Davis has set a goal to change the capital outlay limit for local government to 25%. His advisory group's recommendation is modeled on an idea the late Senator John Hainkel proposed for years. A new infrastructure bank would be set up and the state of Louisiana would seat it with \$100-200M and money would be loaned to local government for capital outlay projects through the new infrastructure bank with very attractive interest rates which would be cheaper than issuing bonds as there would be no transactional costs and with flexible payment terms which normally would not be available in the traditional capital markets. As the money is paid

back, it will be loaned out again. He added perhaps the Louisiana Municipal Association or the Bond Commission could run the infrastructure bank and make the decisions.

Legislature

RECOMMENDATION: To develop cooperative arrangements with Arkansas and Mississippi which would identify and explore creative, synergistic opportunities to make the operation of state government and the provision of state government services more cost effective and efficient.

Treasurer Kennedy stated the advisory group's recommendation is based on a new effort currently being pursued by Minnesota and Wisconsin. It would propose that Louisiana join with the state governments of Mississippi and Arkansas which share common borders and common problems dealing with budget deficits. Each department in state government would ask to meet its counterpart in the other states to discuss joint procurement, across border collaborations, sharing of information and technology systems. They would share resources including, but not limited to, aircraft, patrol boats, warehouse space, call centers, collection operations, licenses, functions, communications and power sites.

Legislature, Governor

RECOMMENDATION: To direct the Division of Administration to cease the implementation of the ERP Project until a cost-benefit plan analysis demonstrates that the benefits of the project outweigh the costs.

Treasurer Kennedy stated the state of Louisiana is currently implementing an Enterprise Resource Project (ERP) to replace the ISIS system. There was testimony in his advisory group's meeting that a cost benefit analysis has not been performed. The advisory group recommends to cease implementation of the ERP until a cost benefit analysis demonstrates the savings to the state. Since the advisory group considered this issue, Secretary Levine indicated there may be a Medicaid crisis shortfall this fiscal year because of the increased health care costs dealing with the treatment for swine flu. This should be a priority spending issue.

Legislature, BESE, Louisiana National Guard

RECOMMENDATION: To require that all Louisiana public school students who have been suspended from school for more than five days in a school year or who have more than ten unexcused absences from school in a school year be required to enroll in the Louisiana National Guard Youth Challenge Program. To pay for increased enrollment in Youth Challenge with Minimum Foundation Program funds. To change Louisiana law to prohibit students from dropping out of school until they have reached 18 years of age.

Treasurer Kennedy stated the advisory group heard testimony that 80 students drop out of Louisiana's public schools every day. In 2006, Louisiana ranked 5th in America in the percentage of high school drop outs according to the Department of Education. The advisory group heard testimony that drop outs are likely to be unemployed or under employed; more likely to commit crimes and become incarcerated; and more likely to access public social welfare programs such as Medicaid and food stamps. The advisory group had discussed a study that was done in 2006 by the Alliance for

Excellence in Education called the "High Cost of High School Drop Outs, What the Nation Pays for Inadequate High Schools". He stated he would paraphrase the study by saying if high school drop outs of Louisiana's class of 2006 had earned their diplomas with their class mates instead of dropping out, the state economy would have gained an additional \$6.5B in wages over those students' lifetimes.

Treasurer Kennedy stated the advisory group recommends strongly to discourage students from dropping out by changing the law to provide no student drops out of elementary and secondary education in Louisiana until they are 18. The advisory group recommends public school children suspended more than five times in a school year or who have more than ten unexcused absences, excluding health, cannot quit school. The at-risk students would be directed to enroll in the Louisiana National Guard Youth Challenge Program, a program which offers at-risk adolescents an opportunity to earn a high school equivalency diploma in a military environment. They have a 50% success rate. The advisory group will hear testimony next week from DOE which has programs that could be considered in addition to the Youth Challenge Program which may be less expensive. The Youth Challenge Program would be funded with MFP dollars and the dollars would follow the student.

Representative Geymann was concerned regarding the suspension of more than five days or times and if there was any flexibility with the principals and superintendents. He asked if a student with a 4.0 average was suspended for three days for defending himself in a fist fight would he be directed to go to the Youth Challenge Program. Treasurer Kennedy stated there a lot of details that have yet to be filled in. The reason there are 80 children per day dropping out is because once they are suspended, they quit school; but yet they have to be suspended for disciplinary measures. He stated that is the conundrum but he would get clarification as to whether it is five days or five times.

Representative Morris was concerned regarding 18 being the age a child is allowed to drop out. He stated it was his understanding from the school board they were having problems with seventeen year olds being in grades they were not appropriate to be in and to raise it one more age level is something that needs to be researched.

Legislature, Governor

RECOMMENDATION: To direct state government to reduce the number of state government positions by at least 5,000 positions for each year of the next three years pro-rata by department through vacancies and attrition and without reducing the quality of products or services. Department heads are directed in their reorganization efforts to study and take into account layers of management, spans of control, clerical staffing levels, unit consolidation, process re-engineering restructuring, retraining for enhanced skills and headquarters staffing reductions. Department heads should increase productivity by providing training opportunities for employees who wish to learn new skills or improve old skills. To use twenty percent of the savings to increase compensation for employees taking on additional responsibilities.

Treasurer Kennedy stated the advisory group recommends the elimination of 5,000 state government positions each year for the next five years through the elimination of positions by attrition and by not

filing vacancies. Louisiana has an attrition rate of 15-22%, depending on the study. A study he reviewed indicated the current average unclassified salary in Louisiana is \$60,000. He added if 15,000 positions are eliminated through attrition, the cost savings would be \$600M-\$1B. He stated 20% of that savings would be set aside to increase the salaries of those state employees who are performing the additional responsibilities they would have to take on as a result of eliminating these positions.

Treasurer Kennedy stated the advisory group also recommended the vacancies be assimilated into state government by adopting the organizational standards recommended by the Select Council on Revenues and Expenditures in Louisiana's Future in its final report of April, 1995. Layers of management need to be eliminated in each department. In regard to agencies under the jurisdiction of the governor, possibly including statewide elected officials, if a department head could not make these changes and absorb these reductions by not filling vacancies without impacting quality of service or product, then he should inform the governor immediately so he can be replaced. He added all department heads in Louisiana do not make less than \$115,000 per year.

Chairman Donahue stated this would be a perfect time to benchmark things. He was concerned why 5,000 was chosen for the positions to be eliminated. Treasurer Kennedy stated there seems to be difficulty in reaching a consensus within state government as to how many state employees there actually are. He has based his numbers on a report that was done last spring by Robert Scott in the *Times Picayune* stating 104,000 state employees. He stated Civil Service and the Division each give different numbers and they reference full-time equivalence, TOs, BCs and NFLs which confused him. He stated he did not know how many state employees there are but did know Louisiana is number one in the south and number eight in the country and was concerned if this was benchmarked, wiggle room will be allowed to move the benchmark. Representative Morris was concerned what numbers Treasurer Kennedy used for his calculation purposes and requested he submit the formula to the members within the next two weeks. He also was concerned if this included higher education. Treasurer Kennedy stated this did include higher education.

Commissioner Davis voiced that the advisory group's recommendations needed to be specific and evidence based to get to those reductions. She stated it would be helpful to the Streamline Commission to understand the reduction of 15,000 positions. She asked if this includes executive, electives, higher education and legislative. Treasurer Kennedy stated he did not believe judicial was included in the 104,000 state employees but he did not know the answer to Commissioner Davis' concern and he would have to research it. Commissioner Davis stated there were no specific recommendations based on various department's attrition rates. Treasurer Kennedy stated there was which is to start by adopting organizational standards. No department of government should have more than four to five layers of management. The Secure report in 1995 found hundreds of 1:1 reporting relationships, one manager to one employee. He added the span of control should be no less than 1:10. In the world of technology, not more than 15% of total staff should be devoted to clerical work. He stated units of 2:5 staff should be consolidated. The number of tasks the employees perform should be reduced. This would have to be adopted by every department of government, including statewide elected officials, and the vacancies would be assimilated.

Louisiana has a \$3B shortfall over the next 2-3 years. This proposal addresses the shortfall in a humane way and rewards those employees who remain behind with additional pay.

Chairman Donahue stated questions are to be answered, not debated. Commissioner Davis stated specific recommendations needs to be included in the proposal when Treasurer Kennedy comes back before the Streamline Commission so it will be understood where those positions will come from. Treasurer Kennedy stated he can answer that now. He recommends the Governor appoint and the Senate confirm five men and five women who have business experience in the private sector and understand state government. He stated if a vacancy needs to be filled, permission must be received by them. It would be understood they are not going to approve all vacancies, but will inquire how the vacancy can be assimilated and restructured. Representative Geymann asked if this recommendation included statewide local offices. Treasurer Kennedy stated yes. Chairman Donahue stated there were several questions regarding this recommendation due to its size and is a very difficult paragraph to understand. He stated he would like to see more details about what was being discussed, possibly in the form of a plan. Treasurer Kennedy stated additional information is stapled to the back of the recommendation.

Legislature

RECOMMENDATION: Eliminate tolls on the Crescent City Connection Bridge in New Orleans on December 31, 2012. The ferries will not be closed.

Treasurer Kennedy stated the advisory group heard testimony from the Legislative Auditor regarding the Crescent City Connection Bridge who found for the past fiscal years the bridge has taken in \$245M while spending \$270M. The Legislative Auditor found the Crescent City Connection Division of DOTD has 240 employees, most of whom have joined the retirement system. He stated there was testimony regarding the number of cars they purchased and testimony regarding infrastructure projects dealing with the bridge that were promised to the people if they would renew the tolls a number of years ago. He added the tolls were renewed and the projects have never been completed so the advisory group recommends eliminating the tolls.

Chairman Donahue was concerned if maintenance of the bridge was included in those figures. Treasurer Kennedy stated Patrick Connick discovered the Crescent City Connection had been maintaining a \$15M insurance policy on the bridge and hurricane damage to the bridge was covered for \$100M with a \$50M deductible and once this was brought to DOTD's attention, the policy was cancelled.

Legislature

RECOMMENDATION: To direct the Division of Administration to determine the current fair market value and the "highest and best use" of each state-owned property, and to develop opportunities for the state to enter into public-private development partnerships with private and non-profit public partners, chosen by competitive bid, in order to develop and manage state-owned real estate in a manner that achieves the "highest and best use" of the property, increases cash flow for taxpayers, meets smart growth principles, and satisfies the highest standards of design and environmental sustain ability.

Treasurer Kennedy stated the state owns thousands of acres of land and improvements such as buildings, offices, warehouses, parking lots and vacant land. The Office of State Lands and Office of Risk Management has an inventory of these properties, but he did not believe they tracked current market value or "highest and best use", a real estate term for optimizing the return of a piece of property. The advisory group recommends that the Division be asked to determine the current fair market value of each piece of state-owned property, determine the "highest and best use" of each piece of property and the DOA develop opportunities for the state to enter into public/private development partnerships with private and non-profit public partners chosen by competitive bid to develop and manage state-owned real estate in a manner which achieves the "highest and best use" of the property, increases tax flow for taxpayers, meets smart growth principles and satisfies the highest standards of design and environmental sustainability.

Representative Morris asked about appraisal costs and if the appraisals would be certified. Treasurer Kennedy stated appraisals would be done in-house and he did not know if the appraisals would be certified.

Commissioner Davis thought this recommendation should be modified so it would not be so expensive. She stated an inventory of all of the state assets, lands and properties is currently being done and will be completed in November. She added the information will be available on all state assets, where they are, and what is commercial and not commercial in nature. She stated the added costs of actually performing appraisals needs to be avoided. Treasurer Kennedy stated the recommendation does not call for a formal appraisal.

RECOMMENDATION: To require the members of the legislature, statewide elected officials, members of the Board of Elementary and Secondary Education and the Superintendent of Education for the State of Louisiana be required to substitute teach without pay at least two times a year in a Louisiana public school as a condition of the position or office.

Treasurer Kennedy stated in order to help the elected and in some cases appointed officials to make better financial decisions regarding money spent on elementary and secondary education and to help better understand what teachers endure, the advisory group recommends members of the legislature, all statewide elected officials, members of BESE and the State Superintendent be required to substitute teach in a public school at least two times a year. He added to substitute teach, it would require a short orientation program.

Chairman Donahue was concerned some of the individuals listed on the recommendation would have to give up their pay. Treasurer Kennedy apologized for that information being unclear. He stated the individual would not be paid by the school for substitute teaching. Mr. Erwin was concerned what would happen if the individual did not participate and whether they would be indicted or would that be malfeasance. Treasurer Kennedy stated he did not know. He added the advisory group did not want to put anyone in jail.

Legislature

RECOMMENDATION: To sunset and abolish all special funds in the State Treasury and the statutes establishing such special funds, except for those establishing such special funds, except for those established by the Constitution, relating to the Judiciary or that otherwise would not be available for General Fund use, as of June 30, 2011, and all monies in those funds are to be deposited in the State General Fund.

Treasurer Kennedy stated there are over 380 special funds in the Louisiana Treasury to which money is statutorily dedicated. This recommendation does not apply to constitutionally dedicated money such as MFP, LAQTF, the Minimum Foundation Program or the Tobacco Settlement Trust Fund but only pertains to money that has been dedicated statutorily which totals approximately \$2B. This recommendation would not apply to certain statutorily dedicated funds which are exempt, such as those statutory dedications that exist solely as a requirement of the terms, conditions or requirements of grants, donations, court or agency orders or judgements, contracts of the state or its agencies. Dedicated funds would not be affected if a donation was received for a specific purpose such as money dedicated at the direction of a court, money dedicated to the payment of a contract, money for the judiciary, money for the retirement systems or dedications of money provided by law for money received by or on behalf of the State Board which is mainly composed of and represents members of a trade, business or professional association from fees or assessments. With those exceptions, the advisory group recommends to sunset all statutorily dedicated funds and allow those recipients of those funds who wish to reapply to the legislature to have their money rededicated.

Chairman Donahue stated there was already a commission established through the legislature to go through the evaluations and was concerned if Treasurer Kennedy had reviewed that legislation. Treasurer Kennedy stated he had.

VIII. PUBLIC COMMENT

Testifying and providing information to the commission was George Stack, representing LaFourche Arc in Thibodaux, Louisiana who stated he was also there representing the Alliance of Independent Providers. He provided a handout to the commission members and stated in reference to the discussion earlier regarding privatizing the state operated community homes, he did not recall anything regarding privatizing, consolidating or closing of the developmental centers which would be a real cost savings. He added DHH should be required to deal with the private providers and everything DHH does drives up the costs that providers experience whether it be related to training or medication administration. He added he meant no disrespect to DHH as he did not believe DHH was aware of this. The recommendations in his handout will result in tremendous savings to the state. He or the three other individuals listed in the handout would be available to meet with the commission members and answer any questions.

Chairman Donahue stated there are two advisory groups, one chaired by Mr. Martin and one by Mr. Erwin, both of which are looking at this specific issue. A lot of testimony was received during the listening tour from people from all across the state regarding this and there will be many recommendations submitted that will be pleasing in general to the industry within the next six weeks.

Treasurer Kennedy stated he read "Practical Solutions". He stated beginning in the 1960's, the trend was to move away from large institutional care centers to small settings. He was concerned if Louisiana has not followed that trend. Mr. Stack stated Louisiana has, but it has downsized without closing their state operated facilities or resource centers but the state still operates eight of them which some could be closed and consolidated. Treasurer Kennedy was concerned what Louisiana should do in that regard. Mr. Stack stated the state needs to retain some ability to serve people who have acute illnesses whose health would be imperiled in the community. There are people who would otherwise be better suited in the prison system than with private providers in the middle of communities. The state will need to continue to provide facilities for those two groups of people that otherwise would not be successful and whose lives would be in jeopardy in a community. It costs the state an average of \$100,000 per year per person more to operate the identical services the private sector provides. The vast majority could be privatized and result in a tremendous savings to the state.

Testifying and providing information to the commission was Ric Crowley of Denham Springs, Louisiana who disagreed with Mr. Stack on some concerns. He is a parent of an 18-year old child who is one of the first individuals to receive New Opportunities waiver services. During the past legislative session, the nursing home industry asked for and received additional funding to their base budget and received a 5.4% increase, as well as an appropriation of an additional \$20M to fund approximately 8,500 empty beds. He believed this commission has an ethical obligation to review this action and make recommendations to prevent this from happening again. The \$20M could have been reallocated to cuts that were given to community programs for the long-term care of the elderly and for the New Opportunities waiver.

He was concerned why the nursing homes and the developmental centers were protected from cuts. He stated it must be questioned why Louisiana spends approximately 75% of the funding for the elderly in the nursing home industry when the elderly are saying they would rather be supported in their own homes. There was a study done by AARP that 80% of the elderly want to live in their own homes and yet Louisiana spends 75% of its money on people to live in nursing homes.

Mr. Crowley stated \$234.6M in funding for the developmental centers which received a 3.6% increase in this year's budget should be redirected to help reduce the New Opportunities waiver waiting list which now numbers approximately 9,200. It now costs \$173,010 for one individual to live at a developmental center. Individuals residing in developmental centers could reside in community homes as has been the experience in many states of this country. Many states do not have developmental centers. He ran a developmental center and helped close four developmental centers. Secretary Levine argues the high fixed costs of maintaining centers and he felt he was correct therefore they should all be closed. The more that are closed, the higher the costs are going to go. In some states as they closed institutions, fixed costs have risen to \$200,000-\$400,000 per person. By redirecting \$20M away from the vacant nursing home beds and redirecting the \$234,000 from the centers, significant amounts of dollars can be found to either restore cuts that have been made to community programs and/or to help take people off waiting lists.

Mr. Crowley stated there was a \$1B issue that lies before the commission. Louisiana risks having to return nearly \$1B to the federal Treasury for the state's failure to support community services. In 2001, Louisiana was given permission to set aside hundreds of millions of dollars in the Medicaid Trust Fund for the elderly which was set up by the Louisiana legislature, Act 143. Louisiana agreed in writing that the state was committed to using no more than 2/3 of the income from the trust fund created by Act 143 for enhancing the quality of care in nursing homes and up to 1/3 for the development of additional community based services and increasing access to care for the medically underserved. He was referencing a letter to HHS Secretary on January 2nd from the Louisiana Department of Health and Hospitals under David Hoods' signature. He stated approximately \$800M remains in the trust fund today. Over the years, the nursing home industry has received hundreds of millions from the fund, in principal and interest. He stated only the income was supposed to have been used and to his knowledge not a penny has gone into community-based services for people with disabilities. He added if that is true, Louisiana has broken its promise to the federal government. He stated Louisiana must agree to return the amount equal to the entire corpus of the Medicaid Trust Fund to the federal government. He stated "we" demand Louisiana release now upwards of \$200M from that trust fund to go to community support and services. This would put Louisiana in compliance with that agreement and would be the fair, honorable and ethical thing to do. IONS

Chairman Donahue stated that was all the recommendations the commission will be receiving today. He stated he suggests each commission member review the recommendations carefully and any that do not dynamically impact the state of Louisiana be summarily dismissed to get them off the agenda in order to get to the items that save over a billion dollars of state money. There are some recommendations that will impact the state financially and this commission will not have time to evaluate them properly so the commission will continue to be receiving information and hundreds of other recommendations over the next month or so. The commission is scheduled to meet every week on Tuesdays but can meet two or three times per week if need be.

X. CONSIDERATION OF COMMISSION MEMBER RECOMMENDATIONS

There were no member recommendations.

XI. OTHER BUSINESS

Chairman Donahue stated the commission members will be hearing frequently about "full cost recovery" which is a process this commission will be reviewing for the next 6-8 weeks. He added Maurice McTigue with George Mason University - Mercatus Center is an expert on full cost recovery and serves as advisor to this commission. The chairman called upon Mr. McTigue to testify before the commission.

Mr. McTigue provided a handout to the commission members. He stated Louisiana has an opportunity to use "full cost recovery" more extensively than it currently does. He wanted to start by differentiating between the concept of fees and cost recovery. A fee is how a lawyer, accountant, architect or doctor may bill; that fee encompasses the cost of the services provided and reward or profit to that individual. What he was speaking about is a process that denies the right to any profit,

surplus or reward and only gathers the cost of the service provided and no additional monies. This comes from the concept that it is the only the government that should levy taxes on the people. If excess cost is recovered from individuals then it is imposing a tax on them and if an agency of the government is doing this then the government is transferring to that agency the right of being a taxing authority, and it should not be. Unless the process of cost recovery is transparent and enlisted as verifiable then there is a lot of public cynicism about whether or not this is an appropriate process.

Mr. McTigue referred the commission members to his handout which provides ideas that surround cost recovery and the terms and conditions that would apply. There may be dispute regarding how to determine the correct amount of the charge. He suggested the commission members give serious consideration to adopting a process that is very clear and that the process either be mandated by executive order from the governor or make legal changes to accomplish the political decision as to whether something was paid for by the consumers and users, by the taxpayer or apportionment. The governor may designate that something be "full cost recovery" or designated through budget passage in the legislature. The legislature would review and determine whether it would be full cost recovered or not; it would not be up to the agency. That information should be on the agency's website, both the process and the data that is used to compile the fee, and the process be subject to an independent audit. This will improve public confidence that what they are being asked to pay is fair and reasonable. The implication of this process could save the state multiples of hundreds of millions of dollars. Services are not being reduced; a determination is only is being made that someone else will pay for those services. Savings would be made without actually taking anything away. In many instances, business organizations, professional associations and others have taken over rather than the state continuing to do so.

Chairman Donahue stated he has come to appreciate this idea as it allows Louisiana citizens to decide what the priorities are as well as the transparent method by which Mr. McTigue recommends those actual costs are accumulated. The Louisiana Association of CPA's is working with this commission to create a full cost recovery model which the commission will review and present to the Governor's Office and the legislature to make the ultimate decisions. Some of the monies that are being used as fees can be shifted to costs. He stated there will be a debate about a fee and a tax and what the government should and should not pay for. He added that debate will establish what this state's priorities are.

Mr. Martin thanked Mr. McTigue and stated this was a fascinating study. He stated he could apply this information to his advisory group on outsourcing and privatization. He requested Mr. McTigue to comment on reviewing an RFP or perhaps a bid for outsourcing of a specific function and how it is compared to a true total cost of an agency doing that job. Mr. McTigue stated that is why the CPA's were requested to provide advice because he thought there were a number of options. In the past, cost recovery or fees have been applied to the direct costs or the variable costs of delivering a service. With full cost recovery, one must also look at allocating the overhead costs to that recovery process such as a share of the building that has to be paid for the service to be delivered, the share of the salaries of the administrative staff or even as high as the Secretary. It then becomes a matter of political judgement as to how far to go in applying that process. He stated it would be foolish to presume costs are being recovered when only recovering one-third of it.

Mr. Martin stated the costs of the buildings, equipment and everything that is put into place is rarely considered in his estimation of what he has seen when comparing the cost to the cost of outsourcing and privatization. Mr. McTigue stated as the government moves more toward technology, the differentiation between how services are delivered could have a material impact. It may be 10, 20 or even 100 times the cost for a government center to deliver a service and moving people through cost persuasion would be a good thing. Those are some of the process changes that would enable the government to realize very significant gains.

Chairman Donahue stated this was Mr. McTigue's third trip before the commission. He added Mr. McTigue and his staff at the Mercatus Center researched reams of information to assist this commission to establish things that are a priority to Louisiana. He thanked Mr. McTigue, George Mason University - Mercatus Center and their staff for their help.

XII. ADJOURNMENT

There being no further business to conduct, Mr. Martin motioned to adjourn. There being no objection, the meeting adjourned at 11:57 a.m.

October 27, 2009

DATE APPROVED

Senator Jack Donahue, Chairman